

CENTRAL INTELLIGENCE AGENCY

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11 July 1949

INTELLIGENCE MEMORANDUM NO. 189

SUBJECT: Popular reactions to Soviet Propaganda on the Current
Economic Recession in the US

1. There is in general a lack of positive evidence which would indicate beyond reasonable doubt the popular reaction abroad to Soviet propaganda concerning the current economic recession in the US. In certain countries, however, an examination of economic conditions and past reactions to Soviet propaganda permits a reasoned estimate of the impact of this particular campaign. This is especially true of Western Europe, Northern Europe, and the United Kingdom, and, to some extent, of Eastern Europe as well.

2. A study of press reports and editorial expressions, as well as the monitoring of radio broadcasts, reveals an almost universal reaction to the slow-down in the economy of the US. It is difficult, however, if not impossible, to discern a connection between this reaction and the increased stress laid upon the theme by Soviet propaganda.

3. In such sensitive areas as Western Germany and Scandinavia, the propaganda may be said to have some effect in stimulating latent fears of the longer-range effects of a US recession upon the local economies. For the most part, however, it is possible to say that those areas which, for other reasons, are particularly susceptible to Soviet propaganda, have been notably influenced by this line, and, conversely, that in those areas (e.g., Italy) in which sensitivity to Soviet propaganda has been dulled by surfeit, the effect has been negligible.

4. The attached Appendix presents the situation as estimated with respect to individual countries.

Note: This memorandum has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

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APPENDIX

A. WESTERN EUROPE.

1. West Germany.

West Germans will give more credence to Soviet propaganda on the current US economic recession than they have given to any other theme hitherto exploited by the USSR. The Germans are already becoming increasingly concerned over signs of recession in their own and in some other Western European countries, as well as over the indications of a similar trend in the US, which have been reported to them by non-Soviet media. They fear the spread and intensification of economic recession throughout the western world, because of their urgent need of foreign investments and markets for German products. Special concern is felt concerning the US, however, because of the adverse influence a US recession might exert on the amount of ECA aid. Such concern is unlikely to lessen Western German resistance to Communism, or appreciably affect present German cooperation with the US, unless the German economy itself is badly impaired. If indications of US recession increase, little can be done to refute Soviet propaganda on the issue. Objective reporting of the facts should, however, counteract the more exaggerated Soviet claims.

2. Austria.

According to available evidence, Austrian reaction to Soviet propaganda on a US business depression has been virtually nil. No reaction of any kind has been reported except one instance when the Socialist press referred to it as evidence that the postwar boom was over and that only controls and planning in all countries would be able to avert a world-wide crisis. This interpretation, of course, is in line with Socialist efforts to increase state planning in the Austrian economy.

The Communist press in Austria is, however, proclaiming an economic crisis in the West and pointing out the millions of unemployed in America, panic in London, and the Marshall Plan system on the verge of collapse. There is little reason to believe that most Austrians are impressed by this campaign.

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3. France.

Most of the non-Communist press does not take an alarmist view of economic conditions in the US and appears uninfluenced by Communist propaganda on this score. Although keenly interested in US economic symptoms -- vacillating stock quotations and increasing unemployment -- the majority of opinions expressed tend to interpret these developments as signifying at present only an unavoidable economic readjustment which must follow any major war effort. The extreme Left is more pessimistic, while the Communists, of course, paint a totally black picture. The French will continue to be deeply interested in economic developments within the US and will probably continue their present tendency to avoid hasty, pessimistic interpretations.

4. French and Spanish North and West Africa.

Soviet propaganda on the current economic recession in the US has not yet developed to a sufficient extent to be reflected in the local leftist anti-US press campaign. Consequently no reaction has been provoked to date among the native or European (5-10 percent of the total) populations of French and Spanish North and West Africa.

5. Italy.

The Soviet theme of "inevitable capitalist crisis", repeated constantly since the end of the War, has created in Italy a vague sense of concern even among groups other than the Italian Communist Party members who accepted on faith the Soviet analysis.

The frank recognition, in Italy, of economic dependence upon the US has tended to accentuate the vague sense of concern generated by this repetition. At the same time, the very background of Communist repetition has dulled new receptivity to the current treatment of the theme in so far as it is propagated by Communist media. Perhaps for this reason, no specific indications have yet been received of any fresh impact of the Soviet line.

However, as US expressions on the recession are reflected in Italian non-Communist information media, the former vague concern among many Italians will tend to be irrationally magnified and lend new credence to the Communist line in general.

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6. Spain.

Because of strict Governmental control of press and radio, virtually no Soviet propaganda reaches the great majority of the Spanish people, except occasionally through clandestine sources. The Government may, from time to time, use Soviet propaganda to serve its own purposes, e.g., to cover up its inability to secure a US loan. However, high Government, military, business, and Church circles fear the growth of Soviet and Communist influence in Europe and would therefore be gravely concerned at evidences of a major US recession. Certain elements of the Franco regime are desirous of seeing the East-West struggle continue without a solution because they feel that it will help to prolong the regime's tenure of power.

7. Portugal.

No reports have been received to indicate that Portugal is aware of the current economic recession in the US, through Soviet media or otherwise. Despite strict Government censorship, however, the public is becoming increasingly cognizant of the accelerated deterioration of Portuguese economy, and, if a US recession adversely affects Portugal's attempts to get ECA aid, some propaganda may be circulated by the Government's opposition, which would tend to weaken US-Portuguese relations and Portuguese faith in the ability of the Western Powers to combat Communism.

8. Belgium.

Soviet propaganda on an economic recession in the US will not be seriously received by Belgians unless borne out forcefully by future developments. Belgium is not as directly dependent upon the US and US trade as other Western European countries, and until a recession is more evident in other areas, Soviet propaganda will not make an important impression. The most successful phase of Soviet propaganda will be the demands for increased East-West trade, which many Belgians already feel is necessary for continued Belgian prosperity.

9. Netherlands.

The concern of the Dutch public over a US recession will not be fostered to any serious extent by Soviet propaganda, or will such propaganda cause the Dutch to feel more kindly toward the USSR. The Soviet line on the need for increased East-West trade will, however, be more sympathetically received as markets in western areas become more competitive.

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10. Switzerland.

No Swiss reaction to Soviet propaganda regarding a US depression has been reported. Astute business men, the Swiss are aware of their own economic recession which is regarded generally as a return to more normal conditions. It may be presumed that they are aware of such a possibility in the US.

Meanwhile, the Swiss continue to urge continuing ERP. Apparently there is no Swiss fear that the US will be unable to do so.

B. EASTERN EUROPE

1. General Statement.

No positive information is available on which to base an estimate of the popular reaction in the USSR and Satellite countries to Soviet propaganda on the current economic recession in the US. The following estimate is, therefore, based on probable trends of public opinion in the area rather than on specific information on the subject.

2. Reactions Inside USSR.

The Soviet propaganda machine has a virtual monopoly on all information reaching the inhabitants of the USSR. All propaganda media have been used intermittently since the formation of the Soviet State to convince the public that economic crises are an inevitable concomitant of capitalism. In recent weeks the Soviet propaganda on the imminence of a crisis in the West has assumed the proportions of a barrage, one of several indications that the Kremlin may believe the crisis is at hand. While there are no available reports on popular reaction to this theme, there is little reason to believe that the Soviet citizen doubts its veracity. Uncomfortable as living conditions within the USSR now are, any indications of economic distress in the West may well cause the Soviet citizen to find solace in the exaggerations of Kremlin propaganda and thus rationalize his own position.

3. Reaction in the Satellite Countries.

Initially the Eastern European people, since they are largely pro-US and anti-Communist as well as anti-Soviet, will tend to discount such Soviet propaganda. Another factor which will influence them is the well-known bias and unreliability of Soviet news output. Inasmuch as the Satellite peoples look to the West, and specifically the US for liberation, they will be reluctant to believe that US economic stability and consequently their hope of freedom is endangered. Should Soviet

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propaganda, however, take the line that the US might make war on the Soviet Union to stave off the economic crisis, they would be heartened as the prevalent feeling in Eastern Europe is that only through an East-West war can they hope for freedom from Soviet domination.

Eventually, however, the Eastern European peoples will be influenced by the Soviet propaganda which is already exploiting actual economic developments admitted by Western leaders. The effectiveness of the Soviet propaganda will gradually increase, especially if the Western recession becomes more severe and furnishes the Kremlin propagandists with additional facts for their campaign.

C. NORTHERN EUROPE, etc.

1. United Kingdom.

Propaganda emanating directly from Soviet areas has negligible effect in the United Kingdom. While this is true of that propaganda relating to "recession" in the US as well as to other subjects, it should be pointed out that much British economic comment, especially from the Socialist movement, has dwelled on the wide fluctuation of trade cycles in the "uncontrolled" economy of the United States. The British have therefore been apprehensive for some time over the consequences for them of a possibly severe US recession, and are exposed in some measure to a line of comment which, although not so distorted and categorical as Soviet propaganda, tends on the part of the Socialist left wing to parallel it.

The Communist newspaper "The Daily Worker" has been featuring the Soviet line on an imminent economic recession in the US and has been advocating that therefore the UK, to avoid being affected, should expand her trade with the USSR and other Eastern-bloc countries, but this newspaper has a limited circulation and cannot be said to have a strong influence on popular reactions.

2. Ireland.

There is no indication that the Communist line on the American economic situation has made any impression in Ireland where there are few Communist supporters and no direct Communist propaganda outlets.

3. Union of South Africa and British Africa.

Russia's stepped-up propaganda program warning of impending crisis

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in the US economy has not been reported in the responsible press in the Union or in British Africa, and consequently there has been no public response. It can be expected that some journals of the non-European press will take up the new party line, but the readers of such journals are relatively few, uneducated, and generally disposed towards the US rather than towards the Soviet.

4. Canada.

Soviet propaganda in Canada has slight effect except on Labor Progressive (Communist) party members and fellow-travellers. Such propaganda on the current economic recession in the US would be disseminated through the 6 Canadian Communist party papers with a circulation of some 25,000, through the 14 Communist-controlled foreign language publications reaching some 56,000 persons, and through recent Communist party campaign speeches preceding the 27 June federal elections. In general, however, the effect of Soviet propaganda in Canada is negligible and the reaction of the public to it would be similar to that in the US, with a realistic discounting of anything emanating from the Moscow-controlled radio and press.

At the same time, Canadian business interests and government policy-makers are watchful of US economic trends because of the close Canadian dependence on the US economy for imports for domestic industry and consumption, and for exports to the US in the stabilizing of Canadian dollar balances.

5. Scandinavia.

The Communist press in Scandinavia is adhering strictly to the Moscow propaganda line of predicting an imminent US depression. However, strong popular anti-Communist sentiment in these countries, the weakness of the local Communist propaganda machines, and the stereotype pattern of the material result in Communist propaganda on the current US economic recession having only a minor effect, with the non-Communist press and general public resistant to Soviet propaganda of any nature.

The Scandinavians are extremely apprehensive of a serious US depression which might result in the further disruption of the world economic situation, the weakening of the political and military positions of the Western Powers, and elimination of ECA aid. Communist propaganda on a US economic recession, therefore, has a fertile field in which to work although to date its influence on the general public and the non-Communist press has been negligible. Should a serious depres-

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sion develop in the US, Communist interpretations of the "capitalistic crisis" probably would receive some acceptance among Scandinavian socialists, long addicted to considerable state control of national economies.

D. FAR EAST

General Statement.

Popular reaction in the Far East to Soviet propaganda on the current economic recession in the United States is almost entirely negative. Soviet propaganda directed to the Far East has made occasional reference to allegedly deteriorating economic conditions in the US, and such references have often been repeated through the media of local Communist propaganda facilities, but popular reaction thereto is seldom, if ever, discernible. It cannot be detected at all in China, Indochina, Indonesia, Burma and Thailand.

Notice has been taken of the economic recession in the US by the press and by public speakers in Japan, Korea, Malaya, the Philippines, Australia and New Zealand, but it is not possible to distinguish clearly the effect of Soviet propaganda in causing such expressions. However, because of their possible pertinence they are summarized in the following paragraphs.

1. Japan.

Available information indicates that Japanese reaction to US economic conditions has developed for the most part without reference to Soviet propaganda.

The conditions of Japanese reaction:

a. It should be taken into account that Japan is an occupied country and that media of information do not reflect completely public attitudes on questions involving international relations. While pre-censorship is not practiced, post-censorship by SCAP and self-censorship by editors and management tend to restrain expressions reflecting discredit to the occupation and/or to any of the nations which participated in Japan's defeat.

b. The major means of disseminating Soviet propaganda are those media utilized by the Japanese Communist Party. Limited supplies of Soviet literature enter Japan while Soviet broadcasts to Japan reach only a minority of the population.

c. The Soviet propaganda line in Japan has emphasized US

"monopoly capitalist" efforts to develop Japan as a base of operations against the Soviet Union. This policy, they allege, implies colonial status for the Japanese and, besides depriving them of their independence and self-respect, subjugates them to political, economic and military exploitation by the US.

d. The allegation that the US would suffer and now is suffering from an economic depression has been a secondary theme of Soviet propaganda in the Far East not directly aimed at Japan to date. In this regard the point has been to emphasize the risks of alignment with the US whose economy, subjected to stress of its own contradictions, would compel withdrawal of US support from erstwhile allies.

Japanese reaction:

a. The Japanese have been aware for 5 months of unfavorable conditions in US business and have laid to that cause cuts in US appropriations to assist Japan's economic recovery. These conditions are also given as the reason for establishment of the exchange rate at a level higher than previously contemplated, i.e., because of the drop in US prices the formerly considered rate might have favored excessive Japanese imports from the US.

b. The Japanese see a US recession as having three major effects in Japan.

- (1) possibly compelling a reduction of US aid to Japan and perhaps even a partial troop withdrawal thereby increasing the threat from Communism.
- (2) hampering Japanese economic recovery through reduced demand for Japanese exports and compelling a decline in the price level for Japanese goods.
- (3) reducing prospects for private US investments in Japan.

Only a minor portion of the Japanese population, which is generally anti-Russian and conservative, is influenced by the subject Soviet propaganda line. It serves, however to confuse some Japanese and weaken their US orientation by underlining the weaknesses of the Japanese dependence on the US and suggesting that some economic reasons as well as the military ones pointed out in the alleged Royall Statement might lead to US withdrawal.

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2. Korea.

The Communist propaganda effort in Korea has given very little, if any, attention to the line that the US is entering a severe economic recession. The Korean press has exhibited much concern over the extent of future US aid and commitments to Korea, but this concern has its origin in doubts that the US considers Korea within its security zone in the Pacific and not in any consideration of a possible US recession that might force a limitation of US foreign spending.

3. Malaya.

The only instance so far of attention in Malaya to a possible economic recession in the US has been an editorial in the Malaya Tribune, Chinese-owned English-language newspaper, of 10 May 1949, but there is no indication that this was inspired by Soviet propaganda. The editorial is entitled "Uncle Sam Builds a New Army" — the army of the unemployed. Quoting employment figures and a substantiating paragraph from the London Financial Times, the editorial suggests that while the Americans refer to Uncle Sam's problems as "a slight case of economic indigestion....(it) may well be a symptom of a more serious ailment, and the world would be wise to prepare against a day when Uncle Sam may be forced to take his bed." It goes on to discuss the seriousness of any US slump, which "would be as contagious as cholera." ERP and the loss of the lucrative Chinese market will intensify America's difficulties. "All this will have political repercussions. To the economic tug-of-war will be added other strains which the world is seeking to avoid. We (in Malaya) can avoid them if we begin to order our own prosperity on the principles of self-reliance, instead of banking on American generosity." It concludes, "If we stand firmly on our own feet, we shall be more useful to America if and when she needs our help."

4. Philippines.

One Roberto J. Llamas submitted an article entitled "The Economic Crisis of US Imperialism" to the Manila Chronicle on 27 March 1949. The opening paragraph states: "The economic crisis in the United States has now taken on enough shape to enable us to analyse its seriousness and to predict its probable rate of development. It must be borne in mind that the present recession cannot be viewed as the crash itself, but as a stage in the downward movement toward a crash. The downward trend, at least, has begun, and it is quite possible that the momentum of it may place the American economy in serious difficulty by the end of the year."

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Embassy Manila comments that Roberto Llamas is a pseudonym and that the tone and style of the writing indicate strongly that the article is not of Filipino origin. [REDACTED] has stated confidentially that the story was [REDACTED] by a member of the Philippine Communist Party.

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5. Australia.

In reply to a parliamentary question on falling prices in the US, Prime Minister Chifley said that any serious recession in the US was bound to have repercussions throughout the world, and falling prices on the American market would inevitably affect the United Kingdom market. Mr. Chifley said that he had heard that there had been a bad break on the New York stock market and that he had been kept fully informed on matters which led up to it. (Sydney Morning Herald, 2 June 1949). Mr. Chifley had to admit at a recent meeting of the Australian Labor Cabinet Deputies that the country would already have a dollar deficit this year, and, what was worse, he admitted that a crisis in the US, and that not so far off, would completely upset the Australian economy. (Moscow in English to UK 23 May FBIB 27 May 1949) (Comment: Although Chifley's statement is not available, the above item is probably a distortion.)

In Perth, during the week, the recently appointed Governor of the Commonwealth Bank, Dr. H.C. Coombs, said that signs of declining activity in America and Belgium were not read as grim portents in Australia. He said that although these trends might point to the beginning of a small depression, a large depression was not likely. They were natural developments from inflationary movements which followed war, thus repeating history after the first World War. It was possible for the US Government to check the trend, and it was likely that it would take immediate steps to do so. (Australian Weekly Newsletter (Dept. of Information) for week ending 6 June 1949, Vol. 7, No. 30).

6. New Zealand.

The US Military Attache reports widespread concern over a US recession. Walter Nash, Minister of Finance, doubts that it will develop into a real depression. The Labor press sees New Zealand insulated from its effects by the stabilization policy and bulk purchase contracts with Britain, but the New Zealand Herald warns that Great Britain must cut costs to sustain export sales and will demand lower prices for New Zealand food. (Weeka #166 Wellington 24 June 1949.)

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E. NEAR EAST

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1. India-Pakistan.

[REDACTED] has little or no information indicating that Soviet propaganda concerning an economic recession in the US has influenced the points of view of India or Pakistan.

There was, however, an editorial in the Pakistan newspaper DAWN of 5 April, 1949 on US Economy. This newspaper has been frequently critical of the US and its economy and the editorial which the Embassy reports as giving a very reasoned and well-informed survey of the factors in American's business life, concluded that, "There is reason to suppose that the present recession in US economy is not the precursor of a serious economic crisis such as that which undermined business activity and confidence in 1929".

The Indian newspaper SEARCHLIGHT in commenting on the President's "Point Four" program complained that "the US does not appear to have either the desire or wherewithal to lend a helping hand to under-developed countries of Asia". In commenting on the US program to develop the world's backward areas, the INDIAN EXPRESS stated that the sum does not accord with expectations. The paper thought that the "administration may suddenly have become slump-conscious and be diffident about Congress' support".

None of these papers is Communistic.

2. Turkey.

1. We have seen no reports from Turkey regarding Turkish reaction to Soviet propaganda of this nature.

2. The Turkish reaction to this sort of thing would probably be similar to the general reaction of the Turks to Soviet propaganda on other subjects, namely, hardened unbelief.

3. Should there be some confirmation from sources deemed credible by the Turks (and they would have to be neither Soviet nor Satellite), indicating that a recession in the US was really occurring, the reaction of unbelief would, of course, be tempered by dismay. In such circumstances, the Turkish Government would undoubtedly be

willing to enter into and cooperate in any international discussions among the Western states, led by the US, which might be called to devise measures to stem the alleged recession, and to avert any possibly unfavorable economic, political, and military consequences.

3. Greece.

The Greeks are so much preoccupied with their own great needs that they have probably not yet paid much attention to Soviet propaganda about an economic recession in the US. Even if they did notice such propaganda, the Greeks would not entirely understand it, because of their great poverty. The danger in Greece would be that a twist in this Soviet propaganda line would make the Greeks more fearful than at present that the US would soon become penny-wise about further aid — with resulting damage to Greek morale and perhaps stability.

F. LATIN AMERICA

Available information indicates no positive reaction throughout Latin America to the Soviet propaganda presentation of the economic recession in the US. Argentine newspapers have taken up the cry against Yankee imperialism and Wall Street monopolists as a result of the US protest on the UK-Argentine trade agreement, but this use of classical Communist terminology does not necessarily indicate a response to the Soviet propaganda effort. On the other hand pro-government DEMOCRACIA on 22 June carried front page article with the headline, "Unemployment Increases in the United States". It stated that the progressive increase in unemployment in the United States has caused the people to wonder whether Henry Wallace is right when he says that a complete depression has commenced in the United States. The article proceeded to quote Henry Wallace on unemployment amounting to "no less than ten million" and the decline in essential industrial production.

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